

S U B M I S S I O N

T O

THE FINANCIAL INSTITUTIONS REVIEW COMMITTEE

O F

THE VICTORIAN GOVERNMENT

FROM

THE CO-OPERATIVE FEDERATION OF VICTORIA LTD.

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SUBMISSION
TO
FINANCIAL INSTITUTIONS REVIEW COMMITTEE

The Co-operative Federation of Victoria Ltd., incorporated under the Co-operation Act 1981, is the only organisation in this State with statutory authority to admit into membership Co-operatives incorporated under the Co-operation Act and, with certificated authority of the Registrar of Co-operative Societies, Co-operatives incorporated under other legislation e.g.

Companies (Victoria) Code

Industrial and Provident Societies Act

Building Societies Act

The Federation is charged with

Promotion of Co-operation for the improvement

of conditions of rural or urban life

Representing the best interests of Co-operatives and

their relationships with all branches of

Government

Furthering an understanding of Co-operatives by the

general public and fostering a climate for

Co-operative growth.

In meeting these objectives the Board of the Co-operative Federation of Victoria is protective of the Co-operative structure, the Co-operative image and endeavours to ensure that only bona fide Co-operatives, observing the Principles of Co-operation* and adhering to the fundamental values of

Equity

Equality

Mutuality

are recognised as Co-operatives.

The Federation has a real concern that any developments in Co-operative organisation are in line with the basic internationally recognised Principles* and particularly respect the sixth of these Principles, viz: increased co-operation amongst Co-operatives rather than confrontation or excessive competition.

* see Appendix.

2. CO-OPERATIVE STRENGTH IN VICTORIA

The Registrar of Co-operative Societies, Victoria, advises that at 31st December 1983 the types and numbers of Co-operatives incorporated under the Co-operation Act 1981 were

Producers	68
Trading	108
Community Settlement	26
Community Advancement	1022
Credit	205
Associations	5
Federations	1
	<hr/>
	1435
	<hr/>

In addition to the above, the Registrar advises of the following Co-operatives incorporated under other legislation.

15 co-operative companies incorporated before 1953 under the Companies (Victoria) Code or its predecessors which elected not to transfer to the Co-operation Act when it was first enacted.

6 co-operative societies incorporated under the Industrial and Provident Societies Act.

1930 co-operative housing societies incorporated under the Co-operative Housing Societies Act.

19 building societies registered under the Building Societies Act with a co-operative capital structure.

As it is understood submissions to the Review Committee are being made by representation from

Permanent Building Societies
Federation of Housing Societies
Victorian Credit Co-operative Association

this submission will be concerned with Co-operatives other than Credit Co-operatives incorporated under the Co-operation Act and Co-operative Companies.

3. SUMMARY OF FINANCIAL STRUCTURE OF VICTORIAN CO-OPERATIVES

The 26th Annual Report of the Registrar of Co-operative Societies, Victoria for the year ending 30th June 1980 states that 1182 Co-operatives from 1414 Co-operatives registered submitted returns to provide the following information

\$000,000's

	Members' Funds		Borrowings		Assets	
	Share Capital	Other	Bank	Other	Fixed	Other
<u>Total</u>	19.25	14.3	38.25	613.5	63.1	622.2
Less 192 Credit Societies	2.9	6.2	14.5	538.6	16.9	545.3
	16.3	8.1	23.8	74.9	46.2	76.9

Annual Reports of 14 Co-operative Companies for the same date provide the following information

33.6	111.9	61.0	110.9	145.6	171.8
giving Co-operative sector totals for the year ending 30th June 1980					
\$49.9m.	\$120.0m.	\$84.8m.	\$185.8m.	\$191.8m	\$248.7m.

4. EMPLOYMENT CO-OPERATIVE DEVELOPMENT PROGRAMME

In addition to the above, the Victorian Government, as part of its job creation programme, authorised the formation of an Employment Co-operative Development Programme in April 1981 under the administration of the Ministry of Employment and Training, budgetted with funds allocated

Year ending 30th June 1982	\$600,000
1983	\$850,000
1984	\$700,000

An evaluation of the Programme was requested of the Minister by the Co-operative Federation of Victoria in September 1982.

Cruickshank Management Resources were commissioned by the Ministry of Employment and Training to undertake the task. The report prepared on completion of that evaluation contained the following recommendations

"..... a closure (of the Programme) should probably be rejected"

"..... we do not see the Ministry as being equipped with the necessary business skills nor do we see supervision of a string of small businesses as an appropriate role for a Ministry"

"..... a Co-operative Development Agency should be set up"

"..... A Common Ownership Fund is also recommended to solve the frequent problem of co-operatives by the provision of access to finance from a sympathetic organisation with revolving funds which are provided solely as loans on favourable interest and repayment terms and on the basis of skilled assessment of economic viability"

"..... The auspice of the Worker Co-operative Development Agency and the Common Ownership Fund could be

The Co-operative Federation of Victoria
The Small Business Development Corporation
as an independent Foundation.

We discount the Ministry itself as a possibility because of all the dependency creation arrangements advanced

elsewhere and the inappropriateness of the holding company role for the Ministry on a long term basis"

5. LEGISLATION

The Co-operation Act does not specifically define what a Co-operative is, though in various sections, legislative requirements to comply with the first four Principles of Co-operation, are provided.

The Co-operation Act does not enable non financial Co-operatives to obtain any real financial assistance from financial Co-operatives.

There is a perceived need for Trading Co-operatives, Producer Co-operatives to be able to obtain financial assistance from a Co-operative financial institution, particularly to meet needs of development finance.

Whilst some sections of the Act provide for some inter-relationship e.g.

At Section 71 it empowers a Society whose Rules so authorise to raise money on loan from members or other persons in such manner as it thinks fit by legal and on equitable mortgage charged on the undertakings of the Society.

Community Advancement Co-operatives may not receive money on deposit.

Only when expressly authorised by their Rules may other Societies receive money on deposit and such Societies other than Credit Societies may only receive money on deposit where a minimum of one month's notice of withdrawal or repayment is required.

Section 75(1) restricts Co-operative Societies in the ways in which surplus funds may be invested.

Section 75(6) permits Co-operative Societies to invest up to the value of one third of the paid up capital in shares in a Company which has agreed in writing to 'render special services to the Society in furtherance of the Society's objects'.

Section 17(f) authorises Credit Co-operatives incorporated under the Co-operation Act to

'agree by purchase or otherwise shares in any other Society'

but

Credit Co-operatives shall not make a loan to or credit arrangement with a person unless the person is a member of the Society.

there is still a great inadequacy in the legislation to assist the development of an integrated Co-operative sector which, if Government policy is to encourage Co-operatives, will require detailed attention.

Building Societies incorporated under the Building Societies Act may make advances to members, other persons and to corporate bodies upon security of freehold or leasehold estate by way of mortgage

They may make advances to other building societies.

Section 219 provides for Treasurer's Guarantee to be given in the recommendation of the Co-operative Societies Advisory Council in respect of monies advanced by an

approved Bank to a Co-operative. In actual practice these guarantees are usually confined to Community Advancement Co-operatives.

At 31st December 1983 the aggregate amount of guarantees outstanding under this authority was \$20.8 million.

6. A CO-OPERATIVE BANK

The Co-operative Federation of Victoria Ltd. has no direct involvement in Co-operative Financial Institutions though it has in membership

One Co-operative Permanent Building Society

The Victorian Credit Co-operative Association
as representative of Credit Co-operatives

As a member of The Co-operative Federation of Australia, this State Co-operative Federation subscribes to the concept of a co-operatively structured Co-operative Bank for Co-operatives in Australia. This country is one of the few countries where this aspect of Co-operative development has been neglected both in the area of rural credit and for consumer Co-operative needs.

The Co-operative Federation of Australia policy for development of this concept was for one member State Federation to establish a system of centralised banking using the services of a commercial bank, to clear daily balances, reduce overdraft costs, provide interest payments on credit balances and invest unused funds in the short term money market. The responsibility for development of this prototype was given to the Co-operative Federation of New South Wales which it has successfully achieved, integrating into

its operation assistance to the Government of New South Wales by administering funds allocated for development of the Workers' Co-operative Programme in that State and State funds allocated for Common Ownership Development.

This Co-operative exercise has proved successful for Government and Co-operatives. The Co-operative Federation of Victoria is currently studying the development of a similar centralised banking service for Co-operatives in this State.

The Co-operative Federation of Australia study, referred to above, endeavoured to structure a federal based Co-operative Bank with tripartite membership - viz:

Permanent Building Societies
Credit Co-operatives
Agriculture and Trading Co-operatives

At that time it was not possible to obtain agreement of national representatives of the two first named organisations and alternative schemes continue under study.

This should not preclude consideration being given by the Financial Institutions Review Committee to establishment of a State Co-operative Bank in Victoria for Co-operatives.

Such a development would have the effect of co-ordinating the supply needs of such bodies as Credit Co-operatives and Permanent Building Societies competing for the same commodity for increasingly overlapping markets and ensuring the resources of Co-operative financial institutions are available to meet needs of trading and service Co-operatives.

Such a Co-operative Bank should broaden the base of liquidity within the Co-operative sector by increasing the capability for attracting external funds domestic, national and even international Co-operative Bank funds as required at reasonable cost.

It should be of assistance to the rural credit needs of agricultural co-operatives and their producer members ensuring the commercial costs paid for funds remain within the Co-operative system for its future development.

7. TERMS OF REFERENCE OF THE REVIEW

7.i Implications of the Campbell Committee Report

The Campbell Committee at 15.135 relating to taxation of Building Societies and Credit Unions includes in its recommendations that

"....the membership of credit unions should be closely and continuously monitored to ensure the principle of mutuality is strictly applied".

The Co-operative Federation of Victoria endorses this recommendation and considers similar criteria should be applied to any Co-operative membership of a Co-operative Bank.

7.ii Implications of changes in their roles for provision of housing finance etc.

The Co-operative Federation has no comment to offer.

7.iii The need for consistency in legislative requirements for administrative procedures and machinery

The Co-operative Federation sees the need for co-ordination of Co-operative financial

institutions to rationalise and better service the needs of the total Co-operative sector controlled by adequate legislative safeguards and high standard expert administration with recognition of the Co-operative as a unique business structure using the word 'Co-operative' as a noun to distinguish such organisation from company, society, association type of structure.

7.iv

Ways in which the Principles of Co-operation can be reconciled with intensifying competitive pressures

Co-operatives like other businesses operating in the same market place, must be competitive to survive, let alone develop. The total benefits of Co-operative structure and ownership should ensure this development in a competitive climate without artificial supportive Government programmes.

Co-operatives are essentially self-help operations and in working to achieve the best results from following Co-operative Principle Six the establishment of apex institutions in relevant areas is essential.

The operations of the Victorian Credit Co-operative Association as a service aid to development of Credit Co-operatives in Victoria is submitted as an example of this Co-operative practice restricted to the needs of credit co-operatives.

An extension is now required to benefit all Co-operatives in meeting their financial needs.

There is no problem in reconciling the Principles of Co-operation with intensifying competitive pressures. Individual Co-operative units co-operating together to provide strength for social, economic and political needs of their members and communities adhering to the basic fundamental values of Co-operative structure would ensure the public interest is well served.

Where an organisation professing to be Co-operative fails to comply with the legislative and philosophic requirements of true Co-operatives then it should be disbarred from use of the co-operative structure and proclaiming itself as Co-operative.

A Co-operative Bank, with Co-operative membership of Co-operative financial institutions, agriculture and trading Co-operatives and - initially at least - Government - would provide a rational central amalgam of financial Co-operative effort, services and needs.

7.v

The need for prudent controls, control of members' rights and funds, regulation of fees

Any Co-operative financial institution, be it Bank, Credit Union or Building Society would be expected to operate as efficient business with inbuilt controls.

Standards of performance should be set and provision for inspections to ensure adherence could be made the subject of regulation but excessive Government control of operations should be avoided.

8. CONCLUSION

The Co-operative Federation of Victoria would welcome the opportunity to discuss this submission with the Review Committee.

MELBOURNE

February, 1984.

SUBMISSION TO REVIEW OF FINANCIAL INSTITUTIONSFROMCO-OPERATIVE FEDERATION OF VICTORIA LTD.INTERNATIONAL CO-OPERATIVE ALLIANCECOMMISSION ON CO-OPERATIVE PRINCIPLES**FOREWORD**

Various forms of cooperation have existed from the very beginnings of the human race, but it was the pioneers of Rochdale who worked out their aims and purposes, and committed them to paper in a form which identified nine specific rules and made possible the evolution of seven Cooperative Principles. These came to be known as the Rochdale Principles and they have guided the formation, development, and identification of Cooperatives throughout the world ever since.

From 1931 to 1934 a Committee of the International Co-operative Alliance studied the "Present Application of the Rochdale Principles", more especially with a view to assisting the I.C.A. authorities to determine their precise application when identifying a Cooperative of any type, from any part of the world, as being eligible for membership of the I.C.A. and in consequence being considered a true Cooperative, suitable for membership of the World Cooperative Movement.

The Committee made its first report to the Congress of 1934 and, after studying further information from cooperatives of all types, made its final report to the Congress of 1937. As a result of this report, the International Co-operative Alliance recognised seven Rochdale Principles, but concluded that only four of these could be applied universally at the international level for purpose of I.C.A. membership. These four were: voluntary membership; democratic control; distribution of surplus to the members in proportion to their participation in the transactions of their society; and limited interest on capital.

The I.C.A. Congress of 1963 decided to instruct the Central Committee to appoint a Commission to examine the present application of cooperative principles in different types of society and in different political and economic spheres and to advise on the right formulation of cooperative principles in the light of their application throughout the world at that time. In March 1966, the Commission reported to the Central Committee, which referred the full report to the 23rd Congress in Vienna in September 1966, together with a resolution incorporating the main recommendations of the Commission as summarised at the beginning of Part III of their Report.

The Report and the Congress Resolution are the subject matter of this publication.

It is the responsibility of the world organisation of cooperatives, namely the International Co-operative Alliance, to consider the essential characteristics of cooperatives which enable them to be identified from other organisations. If any confusion exists, the I.C.A. will endeavour to clarify the issue. Any single pronouncement on Cooperative Principles should therefore be viewed historically in this light as a description of Cooperative Principles and their application at the time of study. If national cooperative movements find any difficulty of definition or interpretation, they should advise the International Co-operative Alliance whose authorities will endeavour to ensure that proper studies are carried out and satisfactory advice and definitions given.

The records of the Committee of 1931 to 1937 and of the Commission of 1963 to 1966 and all the evidence submitted to these bodies are available for study at the headquarters of the International Co-operative Alliance in London. Not only the staff of the I.C.A., but research workers from national cooperative movements will have every facility for using this material in London and, when practicable, photocopies of important material can be supplied at cost price on request from affiliated organisations for use by their research workers. Important material on Structural Changes in national cooperative movements is also available at I.C.A. headquarters in London and may frequently be of use to students or research workers on Cooperative Principles.

W. G. Alexander
Director I.C.A.

Resolution of the 23rd Congress of the I.C.A. held at Vienna from 5th to 8th September, 1966

I.C.A. COMMISSION ON PRINCIPLES

The 23rd Congress of the I.C.A. welcomes the report of the Commission on Co-operative Principles as meeting the specification required by resolution at the 22nd Congress.

Congress accepts that, while there can be differences of opinion as to emphasis or degree, the report is a significant statement of co-operative principles in a modern setting.

Congress approves the Recommendations and Conclusions made by the Principles Commission as follows:-

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.
2. Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.
3. Share capital should only receive a strictly limited rate of interest, if any.
4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:-

- (a) By provision for development of the business of the Co-operative;
 - (b) By provision of common services; or,
 - (c) By distribution among the members in proportion to their transactions with the Society.
5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.
 6. All co-operative organisations, in order to best serve the interests of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.